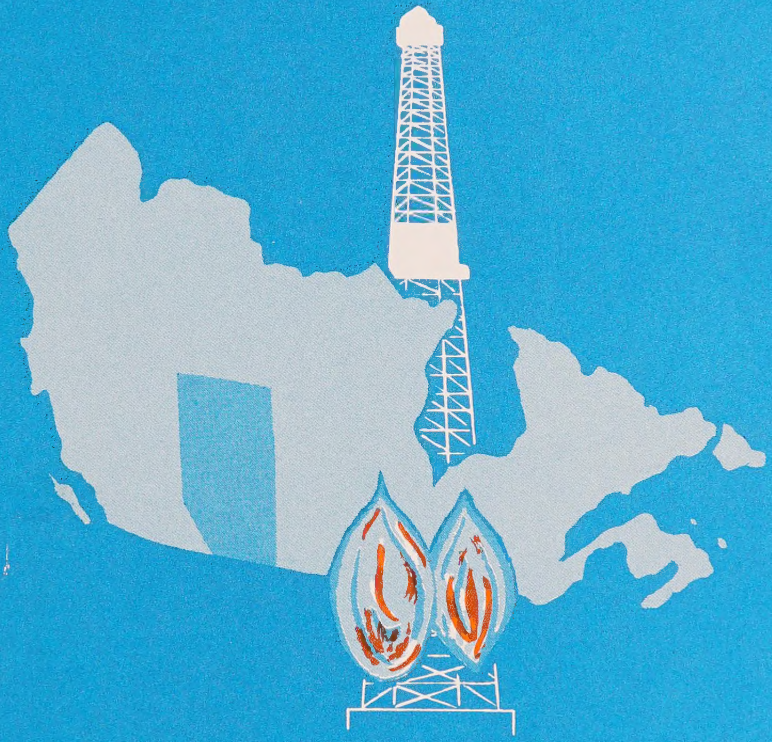
annual report

march 31, 1975



MIDCON OIL & GAS LIMITED

MIDCON OIL & GAS LIMITED

OFFICERS AND DIRECTORS

OFFICERS	J. Douglas Streit	*President*
	J. F. Paxton	*Vice-President*
	W. E. Rearden	*Secretary-Treasurer*
	George Brown	*Asst. Secretary-Treasurer*
DIRECTORS	H.C. Kerr, Q.C.	*Toronto*
	J. F. Paxton	*Toronto*
	R. G. Price	*Calgary*
	W. E. Rearden	*Toronto*
	J. Douglas Streit	*Toronto*
AUDITORS	McCormack, Parker	Toronto, Ontario
BANKERS	Canadian Imperial Bank of Commerce	Toronto, Ontario
TRANSFER AGENTS	Guaranty Trust Company of Canada	Toronto and Calgary
HEAD OFFICE	727 - 7th Avenue S.W.	Calgary, Alberta
EXECUTIVE OFFICE	Room 1000, 360 Bay St.	Toronto, Ontario

To the Shareholders,

MIDCON OIL & GAS LIMITED.

Your Directors submit for your consideration the Annual Report of Your Company with attached Financial Statements, Balance Sheet and Auditors' Report for the fiscal year ended March 31, 1975.

FINANCIAL

Operations during the year resulted in a net loss of $142,337.00. The loss for the year resulted primarily from the writing down of Investments from cost to market value, and lower gas sales which is discussed elsewhere in this report.

GAS PRODUCTION OPERATIONS

The principal assets of Midcon Oil & Gas Limited are located in Southeastern Alberta in the area covered by Map #1.

They consist of the following:

1. A fifty percent interest in South Alberta Pipe Lines Ltd.

2. Remaining recoverable pipeline natural gas reserves owned by Midcon in the area covered by Map #1 estimated as of August 1, 1975 to be as follows:

Field	Midcon Shares of Reserves
Etzikom	2.175 B.C.F.
7 Persons Creek Unit	51.170 B.C.F.
Crowfoot Area	4.521 B.C.F.
Total	57.866 Billion Cubic Feet

In addition Midcon has under contract a further 5.180 B.C.F. of gas reserves from the "Delta" area from which we have been producing and reselling Natural Gas.

The above reserves will be subject to sliding scale crown royalties on gas produced from crown lands (the higher the sales price, the higher the royalty) and to fixed royalty rates of from 12½% to 15% on gas produced from freehold leases.

South Alberta Pipelines Ltd. gathers, compresses and transports natural gas principally from gas wells owned by Midcon and by Pembina PipeLines Ltd. (the two 50-50 owners of South Alberta) to the City of Medicine Hat and to the Western Co-operative Fertilizers Limited, a fertilizer manufacturing plant in Medicine Hat.

Midcon sells natural gas under two long term contracts to the City of Medicine Hat and to Western Co-operative Fertilizers Ltd. Unfortunately, neither of our gas contracts contain a price re-negotiation clause,

however, both customers urgently require additional gas supplies. In both cases we have advised them that we have substantial undeveloped gas reserves available but that we cannot justify any further development drilling at present gas contract prices. We have also advised them that we are unable to even justify sufficient development drilling to maintain present gas production. Deliveries to the City declined last winter to less than 2 million feet per day compared to the 6 million they requested. The Western Co-op are now also aware that they face a reduction in gas deliveries unless we spend additional funds to maintain existing production rates and we cannot justify such expenditures at existing gas contract prices.

We have had some discussions recently with both the City of Medicine Hat and the Western Co-op with regard to the possibility of either selling them our gas reserves outright or rewriting the present gas contracts to include a price re-negotiation clause, but so far with no concrete results. The gas supply squeeze on both the City and Western Co-op will, we believe force both parties to re-negotiate the prices of our gas contracts to a competitive level, but failing this we have no alternative but to cease all development drilling and wait out the term of these contracts at steadily declining production rates.

For the year ended March 31, 1975 the Midcon share of natural gas sales to Western Co-operative Fertilizers (at 17.5 cents/MCF) and to the City (at 11.5 cents/MCF) totaled 1,614,766 BCF, or an average of 4,424,000 cubic feet per day. This was a decline in annual gas sales of about 10.6% from the previous year.

The average prices paid for natural gas in Alberta have escalated sharply in the past few years. Inter-Rock Oil Co. of Canada (a Midcon subsidiary) now receives 60 cents/MCF for gas produced from the Nevis gas field and sold in Canada by TransCanada Pipelines Ltd. and $1.00 per MCF (less pipeline transportation costs to the U.S. border) for Nevis gas exported to the U.S.A.

The price of all Canadian Gas exported to the U.S.A. will go to $1.40 per MCF at the point of export on August 1, 1975 and to $1.60 per MCF on November 1, 1975.

Gas exported from Alberta to Eastern Canada will also increase in price November 1, 1975 to about 80 cents to 90 cents per MCF, the exact price to be arrived at by agreement between Alberta, Ontario and the Canadian Federal Government.

Based on the present mix of domestic and export sales of Alberta natural gas, a domestic price of about 80 cents to 90 cents/MCF and an export price of $1.60/MCF on November 1, 1975 would result in an average field gate price of Alberta natural gas of just over $1.00 per MCF.

The Alberta Petroleum Marketing Commission (a Provincial Crown Agency) now purchases and resells all crude oil produced from crown leases in Alberta. The Province has announced that it will, this year, introduce legislation to have the same Crown Agency purchase all crown natural gas produced in Alberta. It is not clear whether the Petroleum Marketing Commission will then pay all producers the average price of all gas subsequently sold by the agency (on a 1000 B.T.U. gas basis) or whether this average price will apply only to gas exported from the Province.

If the former is the case, Midcon could expect its average price for gas sales to increase from about 15 cents per MCF to about $1.00 per MCF (before royalties) or from about 12 cents /MCF to 55 cents /MCF after royalties. Under these circumstances, we would of course be in a position to sharply increase gas production with a development drilling program.

It has been a frustrating year for Midcon management in that despite our best efforts we have been unable to obtain a gas sales price increase but as outlined above pressure is steadily increasing and we are very hopeful that there will be a break through in this area within the next year.

INTER-ROCK OIL CO. OF CANADA LIMITED

Inter-Rock owns a 0.28363% interest in the Nevis gas field and sells its Nevis gas production to TransCanada Pipelines Limited, which in turn, markets about 20% of this gas to the United States at $1.00/MCF and about 80% to Eastern Canada at 60 cents/MCF.

In addition to its Nevis gas interests, Inter-Rock also owns a 2.08333% interest in the Buffalo Lake Oilfield and a 12½% interest in 7 D-3 oilwells in the Erskine field.

Inter-Rock oil production income from these interests will benefit from a crude oil price increase (amount unknown at present) which Federal Energy Minister Donald MacDonald has announced will take place July 1, 1975.

ARCTIC ISLANDS

Midcon and its subsidiary Inter-Rock Oil Co. Of Canada Limited hold a 50% interest in 260,797 acres of Arctic Island permits plus a 1.875% interest in a further 159,579 gross acres of federal permit on Axel Heiberg Island.

The Canadian Federal Government withdrew the old regulations covering leasing and royalties north of the 60° parallel about four years ago. As a result it cannot be determined today how much of a permit we can go to lease on in the event of a discovery or what royalty we will be required to pay on oil or gas production from federal permits. In view of the uncertainty of these regulations, your directors cannot justify further exploratory expenditures in Northern Canada until the ground rules are more firmly established. We have, therefore, adopted a holding position in the Canadian North until the situation is clarified.

Respectfully submitted,

On Behalf of the Board of Directors.

J. DOUGLAS STREIT,
President.

June 20, 1975.

Consolidated Balance Sl

ASSETS

	1975	1974
Current Assets		
Bank Balances (including interest bearing deposits 1975 $322,005; 1974 $318,148)	$ 327,567	$ 335,786
Accounts Receivable	37,808	34,345
Marketable Securities at Market Value 1975 - at Cost 1974 (Note 2)	302,990	322,981
Accrued Interest Receivable	11,505	11,531
Prepaid Expenses	3,480	3,482
	683,350	708,125
Investments		
South Alberta Pipe Lines Limited - Shares and Debentures at cost (Note 3)	489,500	489,500
Northwest Nitro Chemicals Limited - Shares and Debentures at cost (Note 3)	1	1
Other Shares at cost less amounts written off	6,001	6,011
	495,502	495,512
Property, Plant and Equipment at Cost		
Interest in Petroleum and Natural Gas Leases and Rights	1,106,043	1,111,251
Producing Well Costs and Production Equipment	725,257	723,395
Capped Gas Well	5,790	5,790
Furniture, Equipment and Automobile	10,977	10,977
	1,848,067	1,851,413
Accumulated Depreciation, Depletion and Amortization	514,458	474,468
	1,333,609	1,376,945
Other		
Deposits re performance of work (Note 4)	3,505	22,734
	$2,515,966	$2,603,316

AUDITOR

To the Shareholders,

MIDCON OIL & GAS LIMITED,

We have examined the consolidated balance sheet of Midcon Oil & Gas Limited and subsidiary company as at March 31, 1975 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the

(Incorporated under the laws of the Province of Alberta)

t - as at March 31, 1975

LIABILITIES

	1975	1974
CURRENT LIABILITIES		
Accounts Payable and Accrued Charges	$ 4,841	$ 4,372
Deferred Income Taxes	554,817	491,061
Minority Interest	76,698	85,936
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
AUTHORIZED		
5,000,000 Common Shares No Par Value		
ISSUED FULLY PAID		
4,300,000 Shares	3,353,505	3,353,505
Deficit - per Schedule	1,473,895	1,331,558
	1,879,610	2,021,947
	$2,515,966	$2,603,316

Approved on behalf of the Board

J. DOUGLAS STREIT, Director.

WILLIAM E. REARDEN, Director.

(See the accompanying notes to the financial statements)

REPORT

companies as at March 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
June 12, 1975

McCORMACK, PARKER
Chartered Accountants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1975

1. **Accounting Policies**

Principles of Consolidation

The accounts of the company and its subsidiary, Inter-Rock Oil Co. of Canada Limited are included in the financial statements. At March 31, 1975 the company owned 56.06% of the voting stock of Inter-Rock.

Exploration and Development Costs

Exploration expenditures, non-productive development expenses, dry-hole costs and the carrying charges on properties are charged to expense.

Property acquisition costs are capitalized.

Depreciation, Depletion and Amortization

Capitalized costs of oil and gas properties, and well costs are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Depreciation of other plant and equipment is based on the estimated service lives of the assets calculated on the diminishing balance method.

Income Taxes

The company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of depreciation and other charges reflected in the statement of income rather than on the related amounts claimed in the companys' tax returns.

2. **Marketable Securities**

	1975	1974
Market Value	$302,990	$378,250
Cost	$503,369	$322,981

Marketable securities previously carried at cost were adjusted to market value at March 31, 1975.

3. **Investments**

Midcon Oil & Gas Limited owns 50% of the issued and outstanding common shares of South Alberta Pipe Lines Limited which owns and operates a gas pipeline in the Medicine Hat area of Alberta. The company also owns 50% of the issued and outstanding 5% First Mortgage Redeemable Sinking Fund Bonds of that company. Repayment of the balance of the principal of these bonds, which was due on May 1, 1966 has been postponed with the consent of the bondholders, Pembina Pipe Lines Limited and Midcon Oil & Gas Limited. At March 31, 1975 the company's share of the accumulated deficits of South Alberta Pipe Lines Limited based on the unaudited financial statements of that company amounted to $126,127 and its share of the income for the year ended March 31, 1975 amounted to $19,475. It is the policy of the company not to take this share of the deficit, which exceeds its investment in the common shares of South Alberta Pipe Lines Limited by $46,127, into account in the books.

The company owns 21,500 common shares of Northwest Nitro-Chemicals Limited which company is controlled by Commercial Solvents Corporation. The investment is carried at cost which is not intended to reflect present or future values. The securities are not listed on a stock exchange and the market is therefore restricted to quotations in respect to unlisted securities which are not considered to be representative of market values.

4. The company has a drilling deposit of $3,505 with the Province of Alberta.

5. The aggregate direct remuneration paid to the directors and the senior officers of the company and its subsidiary in the year ended March 31, 1975 was $5,000.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31, 1975

	1975		1974	
Gross Oil and Gas Revenue	$394,165		$351,879	
Deduct Royalties	39,715		29,271	
		$ 354,450		$322,608
Well Supervision		6,600		6,600
		361,050		329,208
Deductions				
Production, Processing and Transportation Costs	172,851		119,680	
Dry Hole Costs			44,264	
Exploration Expenses	750		2,207	
General and Administrative Expenses	58,318		53,221	
		231,919		219,372
Operating Profit		129,131		109,836
Other Income				
Interest Earned	46,831		36,566	
Dividends Received	9,748		6,400	
Profit on Redemption of Investments			19,531	
		56,579		62,497
		185,710		172,333
Other Deductions				
Depreciation, Depletion and Amortization	39,991		45,681	
Income (Loss) Applicable to Minority Interests	(2,316)		8,122	
Cost of purchase of Additional Interest in Subsidiary in Excess of Book Value	10,899			
		48,574		53,803
		137,136		118,530
Provision for Income Taxes - Deferred - (Note 1)		63,756		50,187
		73,380		68,343
Adjustment of Marketable Securities to Market Value	200,379			
Interest in Leases and Well Costs Written Off	15,338			
		215,717		
Net (Loss) Income for the Year		$(142,337)		$ 68,343
Earnings (Loss) per Share		(.033)		.016

(See the accompanying notes to the financial statements)

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1975

	1975	1974
Source of Funds		
Funds from Operations*	$ (31,731)	$198,039
Decrease in Deposits re Performance of Work	19,229	67,513
Redemption of Investments		50,469
	(12,502)	316,021
Use of Funds		
Additions to Property, Plant and Equipment	12,742	19,629
Increase (Decrease) in Working Capital	(25,244)	296,392
Working Capital Changes		
Increase (Decrease) in current liabilities		
Bank Balances	(8,219)	221,589
Accounts Receivable	3,463	(4,615)
Marketable Securities	(19,991)	48,398
Accrued Interest Receivable	(26)	(959)
Prepaid Expenses	(2)	3,165
	(24,775)	267,578
Decrease (Increase) in Accounts Payable and Accrued Charges	(469)	28,814
Increase (Decrease) in Working Capital	(25,244)	296,392
Working Capital, beginning of the Year	703,753	407,361
Working Capital, end of the Year	$678,509	$703,753

*Net Income (Loss) adjusted for charges or credits not affecting working capital.

(See the accompanying notes to the financial statements)

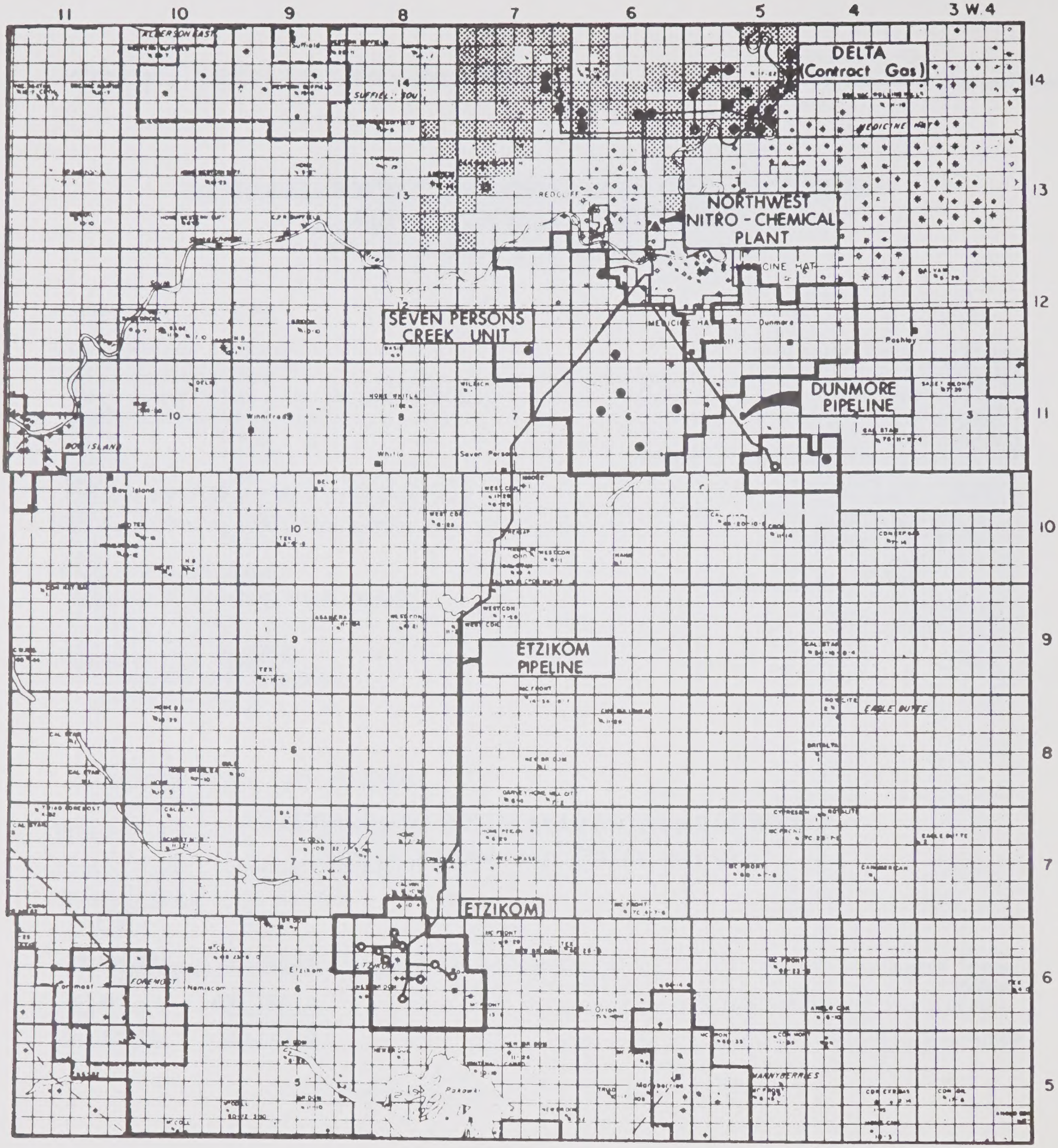
CONSOLIDATED STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 1975

	1975	1974
Head Office Services and Rent	$12,805	$12,795
Salaries	2,400	2,400
Canada Pension Plan	49	54
Unemployment Insurance	40	24
Directors' Fees	2,600	2,300
Secretarial Fees and Administrative Services	16,662	15,223
Telephone and Telegraph	856	1,159
Travelling Expenses	1,265	277
Legal and Audit Fees	8,113	5,975
Reports to Shareholders	4,392	4,041
Share Certificates		346
Transfer Agents' Fees and expenses	5,369	5,352
Miscellaneous	3,672	3,238
Bank Charges	95	37
	$58,318	$53,221

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1975

	1975	1974
Deficit, beginning of the Year	$1,331,558	$1,399,901
Deduct		
Net Income (Loss) for the Year	(142,337)	68,343
Deficit, end of the Year	$1,473,895	$1,331,558

(See the accompanying notes to the financial statements)



MIDCON HOLDINGS

OWNED INTERESTS

ETZIKOM PIPELINE	50%
DUNMORE PIPELINE	50%
ETZIKOM GAS FIELD	40%
SEVEN PERSONS CREEK UNIT . .	42.48%

CONTRACT INTEREST

DELTA GAS CONTRACT	50%

MIDCON OIL & GAS LIMITED

HOLDINGS IN

ETZIKOM - MEDICINE HAT AREA